

SUBMISSION BY FRANCE AND THE EUROPEAN COMMISSION ON BEHALF OF THE EUROPEAN UNION AND ITS MEMBER STATES

Subject: Submission on Article 6 Infrastructure for recording and tracking

Paris, 12 May 2022

1. General

We welcome the invitation to submit on options for implementing the infrastructure requirements referred to in chapter VI of the annex (Recording and tracking) of the Article 6.2 guidance, and look forward to the forthcoming technical workshop to elaborate further guidance.

The immediate task is the elaboration of options available to Parties to implement the infrastructure requirements of Article 6, and the applicable requirements for independent registries, so as to enable choices to be made prior to the submission of their initial reports. In order to facilitate these choices, we will need to translate the infrastructure requirements set out in the Article 6.2 guidance - agreed in Glasgow - into detailed technical specifications to enable the Parties and the Secretariat to implement the elements of the system for which they are ultimately responsible.

The construction of a robust international infrastructure for tracking and recording Article 6 related information involves potentially logistical and technical as well as budgetary considerations which need to be unpacked. The ultimate objective of our work should be the development and implementation of an integrated system comprising a series of electronic databases which facilitate ITMO related transactions, record ITMO information for the purposes of consistency checks and review, and a publicly accessible platform.

At this point, it remains unclear:

- How many Parties are planning to undertake cooperation under Article 6;
- To what extent Parties will use Article 6, whether as buyer or seller;
- How cooperation will be pursued (whether under Article 6.2 or 6.4 or both);
- When Parties plan to submit initial reports;
- What are the preferred options for implementation of detailed participation requirements.

We would expect that a shared understanding of the needs of Parties will require consultation in an iterative process where the implications and costs of available options are fleshed out. With this in mind, we suggest that, based on the options and indicative timelines for implementation of reporting and infrastructure we identify in forthcoming consultations, the secretariat undertakes an initial survey of Party intentions and preferences with regard to implementation. An outline of the options available, as well as an indicative implementation

plan, prioritising and sequencing of implementation of different elements of the reporting and accounting system will assist in decision-making and managing resources.

Initial reports establishing participation requirements must be submitted at the latest in conjunction with the first biennial reports in 2024. With agreement of formats for reporting, the first reports might be expected next year. However, as Parties will need to indicate their arrangements for tracking, and arrangements for authorisation of use of ITMOs in initial reports, some clarity on the parameters for accessing or implementing these different elements is needed before reports can be made.

We recognise that the options for implementation of infrastructure are laid out at a general level, but underline there is some work to be done before countries can be confident of what is required to implement them. Parties will need either to rely on a centralised architecture, or implement or designate their own, and the Secretariat will need to plan implementation of centralised elements of the system, at least in part based on the demands of Parties.

More detailed specifications for each element of the system will need to address the different interests and demands of different users, who may place quite different demands on the system. At the same time there is a general interest in a simple and integrated approach, which will minimise costs and room for mistakes and maximise security.

Our agreement in Glasgow also offered Parties considerable flexibility on the timing of authorisation of use of ITMOs, and on the potential triggers for adjustment, which may complicate demands on parties and on the design of registries and other infrastructure. Some guidance on the options available to Parties in terms of authorisation and identification of triggers for adjustment may be desirable.

The Secretariat has some considerable experience with managing accounting related infrastructure under the Kyoto Protocol, and may draw on lessons learnt during the implementation of that framework. At the same time, Paris accounting is quite distinct, bringing together unit related information and reported emissions to account for a variety of target types; this will require a different approach to reconciliation of information, and place different demands on the system by external stakeholders including reviewers.

2. Scope of Infrastructure

Chapter VI of the Article 6.2 guidance provides for three elements, which in our view should form a connected and integrated system that should apply common standards reporting and communication protocols:

- **Registries** tracking ITMO transactions and to support public and private participation in cooperative approaches, may include the international registry, the Article 6.4 mechanism registry as well as nationally designated registries;
- **The Article 6 database** for the purposes of recording and compiling accounting related information, both in respect of ITMOs and Article 6.4 units not authorised for specific uses. This information is drawn from information reported by Parties;
- **A Centralised Accounting and Reporting Platform (CARP)**, which is the public face of the system established for transparency purposes and to support the Article 6 review by publishing information (non-confidential) from the Article 6 database, including in relation to participation responsibilities, cooperative approaches and ITMOS, and also links to the relevant supporting information, such as information provided in initial report and in BTR.

In general terms we favour a **fully integrated system of electronic databases** comprised of these elements, minimising complexity and operating across both Article 6.2 and Article 6.4. This would be best achieved where all elements apply common standards and formats to facilitate secure tracking and transparent recording, and to ensure robust accounting and environmental integrity.

Given Article 6 accounting involves coordination of both information on emissions and transactions and adjustments supplied via both Article 6 and Article 13, some **coordination of reporting infrastructure under the Article 6 framework and the enhanced transparency framework under Article 13** might be usefully envisaged.

Options Available for Parties and Potential Integration of the System

We believe a **common approach and an integrated system** will be essential to avoid unnecessary duplications of functions, minimise room for errors and inconsistencies, as well as speed implementation, minimise costs, and facilitate the easy reporting by Parties. Such an approach should also facilitate an efficient and effective review process. Implementation will need to establish clear roles and responsibilities for Parties and those charged with implementing the infrastructure system, as well as a system for financing of functions.

In terms of the **options for registries** recording unit and transaction related information there is provision both for:

- A **centralised international registry** for unit related information available to all Parties, which if utilised could simplify implementation of cooperation and reduce costs for different participants by providing national accounts for unit holdings and transactions;
- Distinct **nationally designated registries** communicating via electronic reporting to the central database for accounting, which will need to communicate with each other to effect secure and reliable transactions, and updating of unit related information.

In addition depending on **the approach** by parties taken, these registries may either:

- Deal primarily with **party to party accounting** where transactions allow Parties to regularly reconcile underlying trading positions managed in separate or associated domestic registries – for instance in respect of linked trading systems; or alternatively,
- Deal in addition with **entity level transactions** between authorised entities trading ITMOs and other units directly, and where Party positions are reconciled on the basis of entity level information in the same registry.

The options chosen and approach taken to registry implementation will have significant impact on capacity, communication, and security needs for the system and therefore on the complexity of its design and cost of the overall system.

While the A6 **database and the CARP are common elements of the system**, choices on registries will also place demands on its design. The database and the CARP will bring together information reported by Parties in respect of emissions and unit related information reported and derived from designated registries. The core function of these elements of the system is ensuring robust accounting through comparison of information and enabling consistency checks, and independent review of all reported information.

Demands on the system could be much simplified should Parties decide on a **centralised approach to registries**, where the centralised international registry which could be integrated

directly with the database. Should parties access the A6.4 mechanism registry, this registry could also be integrated in the international registry, creating a fully centralised system.

Guidance also provides that parties may decide to designate their own registries in a **decentralised system**, and should this occur level of complexity is created.

Given that many Parties may wish to manage their own registries, it will be necessary to consider **common minimum standards for communication between elements of the system**, to enable intercommunication with each other and the database and the CARP. In addition provisions of electronic reporting formats and electronic systems for reporting under Article 6 and the Article 13 enhanced transparency framework to the Database could assist in minimising burdens on participants.

Nevertheless, many parties may use the Article 6.4 Mechanism, and its foreseen centralised **A6.4 mechanism registry**, which could simplify the situation and reduce costs, if it were simultaneously considered an element of the **international registry**. We consider it to be an integral part of a common infrastructure for Article 6, and given the mechanism registry is stated to be connected to the international registry we consider there is a mandate for this option. So, while recognising it operates under the guidance and control of the Article 6.4 Supervisory Body, we suggest that it should build on the CDM registry, updated according to the requirements specified under Article 6, and be included in an overall technical work programme for Article 6 infrastructure development. In any event its implementation should be closely coordinated with other elements of the infrastructure.

One element of our system that needs particular attention is the **use of units towards other international mitigation purposes, and specifically CORSIA**. There will need to be reporting from Parties, and the ICAO Secretariat with respect to units used to meet CORSIA obligations in order to prevent potential double claiming or counting. This will have implications for Parties seeking to rely on programme registries in implementation of CORSIA, and the relationship between these registries, party designated registries, and electronic reporting requirements will need to be carefully address. However this is resolved, such information should be reported and compiled in the Article 6 database.

3. Registries

Registry Requirements

Each participating Party is required to have access to a registry for the purpose of tracking authorisations, transfers, acquisitions, uses, and cancellations of ITMOs by that party, comprising accounts and enabling transactions for each potential use case.

There are specifications laid down other elements of the Article 6.2 decisions (i.e. on the database and the CARP) that suggest that the information recorded by registries should include more specific information on ITMOs, including the issuing Party, the vintage of the underlying mitigation (i.e. the calendar year in which the emission reductions or removals were generated), the purposes for which the ITMOs have been authorized (towards NDCs, for other international mitigation purposes, for other purposes, or possibly several potential purposes), as well as information identifying the relevant activity, the activity type, the sector, and the cooperative approach.

Identification of Registries by Parties

Parties are required to have access to a registry, and prior to authorisation of ITMOs, they will be required to designate the registry upon which they rely to meet this requirement. In doing so they will need to demonstrate that the registry applies common minimum formats and

standards that ensure secure and robust recording of information, initiation and completion of transactions, enable reliable and secure communication between each elements of the system, and facilitate a consistent approach for tracking and reporting across participating Parties.

The options available to Parties to fulfil the requirement to have access to a registry are a Party registry, the international registry, or the mechanism registry (under Article 6.4), and some considerations can be envisaged:

- Both the **International registry and the A6.4 mechanism registry** are maintained by the secretariat, and provide accounts for the Parties issuing, holding, acquiring, transferring, cancelling and using ITMOs;
- The **A6.4 mechanism registry** (which is stated to be connected to the international registry) could be considered as an integral part or extension of the international registry, and part of its designated registry;
- **Party registries and the A6.4 mechanism registry** may in addition have functions in respect of other Article 6 units not authorised as ITMOs. This includes procedures for a transparent and traceable transfer of CERs as provided by paragraph 75 of the Annex to decision -/CMA.3 (Article 6.4 decision from Glasgow).

Common Standards and Formats for Communication

Registries will need to communicate with each other, and also with the A6 database. Therefore, common standards and formats will need to apply to facilitate completion of transactions initiated between them:

- **Party registries:** Parties using Party registries will need to establish connections between Party registries to complete ITMO transactions, and to the A6 database to enable the annual reporting of information;
- **The International registry:** Parties using the international registry will be able to complete ITMO transactions where both Parties use the international registry, by effecting transactions between Party accounts in the registry. Parties using the international registry may also report directly or even automatically to the A6 database, noting that the international registry is a component of the CARP;
- **Where one Party is using the international registry, and another Party uses its own registry:** there will need to be a connection between the international registry and the Party Registry;
- **The A6.4 mechanism registry:** Transactions in respect of A6.4 ERs originating in the A6.4 mechanism registry can be completed (i) via the international registry, to which it is connected and of which it may form an integral part, or (ii) using a Party registry, which requires connections between the A6.4 mechanism registry and respective Party registry;
- Parties have also the **option of implementing their own registry arrangements under Article 6.4:** in this case, there will need to be provisions for initiation and completion of Article 6.4 related transactions in a **Party registry**, under supervision of the Article 6.4 Supervisory Body.

Registry Functions

All registry systems are required to securely track the issuance, holding, transfer, acquisition, retirement or cancellation of authorised ITMOs, and may, in the case of the A6.4 mechanism

registry, contain additional information on *other units* (i.e. A6.4 ERs and transitioned CERs, which have not been authorised as ITMOs, and are therefore not subject to an adjustment).

Party registries, and the A6.4 mechanism registry, could contain additional information for ITMOs, and Article 6.4 units involving removal activities, and could reflect the consequences of reversal events. The registries could be a tool to ensure that reversals are addressed in full, from the stage of detection to stage of accounting adjustments, at the level of ITMOs or Article 6.4 units, including through the cancellation of ITMOs or Article 6.4 units, or at the level of NDCs, including through instruments under the enhanced transparency framework.

Recording and reporting information on Article 6.4 units not authorised for use towards particular purposes will facilitate tracking and avoid double counting. In consequence, all registries will need to apply common standards and formats in respect of ITMOs, and in respect of the *other units* (i.e. Article 6.4 units that are not authorised, and any transitioned CERs).

We also recommend that the international registry, and the A6.4 mechanism registry, includes functions to support or facilitate consistent and accurate reporting by Parties of annual information on ITMOs (and on *other units*, i.e. Article 6.4 units that are not authorised, and any transitioned CERs), for recording and compilation in the A6 database. This could be implemented through automated reports that would be regularly generated by these registry systems.

4. *The Article 6 Database*

The Article 6 Database Functions

The Article 6 database is a central repository of information to enable the identification of inconsistencies in information reported by Parties including but not limited to unit related information from the registry, and supports the Article 6 review process by providing an early opportunity for Parties to resolve inconsistencies.

This database records and compiles all the information supplied by Parties, combining both units and emissions related information, thus enabling the recording of adjustments and emissions balances. It includes:

- Reported annual information on units derived from registries;
- Reported corresponding adjustments - derived from identified triggers;
- Reported emissions balances in the BTR structured summary on tracking progress made in implementing, and achieving the NDC under Article 4 of the Paris Agreement (decision 5/CMA.3, annex II);
- Mandated information in the initial, annual and regular information submitted by parties on Article 6 of the Paris Agreement (decision 2/CMA.3);
- Annual information related to reversal for activities involving removals, and how these reversals are addressed in full;
- On a party basis, the information on the use of ITMOs towards CORSIA.

As it is specified that the Article 6 database holds information for ITMOs including a unique identifier, the vintage of the mitigation, and the activity and sectors, Parties will need to report this information as part of their annual reporting. In practice, and as is current practice under the Kyoto Protocol, ITMOs may be issued and transferred in blocks, and information may be reported and recorded also in blocks.

The Article 6.2 guidance provides that the secretariat can use the overview of information provided to identify inconsistencies, and afford the Parties involved the opportunity to resolve them, prior to review.

5. The Centralised Accounting and Reporting Platform (CARP)

The CARP Functions

The CARP is the interface that allows public access to non-confidential information extracted by the secretariat from the A6 database, including information in relation to the ITMOs, the cooperative approaches in which Parties are involved, and links to the relevant supporting information, such as information provided in initial report and in BTR. This implies that ITMOs are also identified with reference to the underlying cooperative approach, and it implies the publication of information on cooperative approaches on the CARP.

The reports from the Article 6 Technical Expert Review (TER) team must also be made publicly available on the CARP.

6. Structure of information, and format for recording and compiling information

UNIQUE IDENTIFIERS FOR UNITS

The guidance provides, in paragraph 32(a) of the Annex, that ITMOs are identified by unique identifiers that allow for the identification, at the minimum, of: participating Parties, vintage of underlying mitigation, activity type and sectors. They could be reflected in a serial number (standardized for common use for all Parties to ensure transparency), that would include also the approach and the NDC implementation period when the mitigation outcome occurred (that is important for the timing of the adjustment). As there is provision for issuance of certification of emission reduction and removals without an authorisation and adjustment, there must be an additional element to a common serialisation for all Paris units identifying authorisation: 'AUTH' would clarify when a unit involves an adjustment. It will be important to find an easy and clear way to identify and distinguish authorised and non-authorised ITMOs.

Thus, the serial number structure would become for example: 'PARTIES-NDC PERIOD-APPROACH-VINTAGE-SECTOR-ACTIVITY-AUTH-NUMBER'.

STRUCTURE OF ACCOUNTS, REPORTED AND RECORDED INFORMATION

Article 6.2 does not specify requirements in respect of accounts for either party or the international registry. In contrast, Article 6.4 guidance for the A6.4 mechanism registry (connected to the International registry) does specify, at a minimum, a pending account, a holding account, a retirement account, a cancellation account, as well as specifically an account for cancellation towards overall mitigation in global emissions (OMGE) and a share of proceeds (SOP) for adaptation account.

Article 6.4 guidance also suggests that the A6.4 mechanism registry can include entity accounts, at the option of a party. Specifically, it provides for "a holding account for each Party and for each public or private entity authorized under Article 6, paragraph 4(b) that requests an account, where that entity meets the requisite identification requirements".

It is our view that all Article 6.2 registries should have a common format, and that the A6.4 mechanism registry and the International registry should be integrated. This suggests all registries should contain at least one:

- **Party holding account**
 - Used to holding units issued for the current NDC period, by authorisation status, and arranged by generation date, originating party, cooperative approach, and purpose;
 - Used to holding ITMOs to be utilised for the purposes of SOP.
- **Party retirement account** – holding ITMOs issued for the current NDC period, and used in the implementation and achievement of the NDC, by year of retirement, including the final year of the NDC period;
- **Party cancellation account**
 - Used to cancel ITMOs to contribute to OMGE;
 - Used by host countries for the purpose for accounting for ITMOs used for international mitigation purposes including ICAO/CORSIA;
 - Used to cancel ITMOs, A6.4 ERs or transitioned CERs used for voluntary mitigation purposes or to reflect units cancelled due to reversal events for activities involving removals.

ARTICLE 6 DATABASE STRUCTURE

The database combines both unit and emissions related information, for the purpose of demonstrating corresponding adjustments, and general compliance with the guidance, by:

- Recording and compiling the information submitted by participating Parties;
- Recording corresponding adjustments and emissions balances of Parties.

The database, like the registries, should hold unit related information, in a similar format and structure, i.e. ITMOs first transferred, transferred, acquired, held, cancelled, or used by participating Parties, where units have unique identifiers identifying, at the minimum, the participating Party, NDC period, approach, vintage of underlying mitigation, activity type and sector(s), authorisation status and purpose (i.e. PARTIES-NDC PERIOD-APPROACH-VINTAGE-SECTOR-ACTIVITY-AUTH-NUMBER).

The database structure should reflect both the structure of registries and the relevant Article 6 and Article 13 reporting formats on accounting. To support consistency checking, and review, it needs to be capable of being interrogated, so as to generate specific reports, with information in a format that enables the checking of implementation of different elements of the guidance.

CARP STRUCTURE

The CARP is the public face of the system established for transparency and to support the Article 6 review by publishing information submitted by participating Parties including public information on participation responsibilities, cooperative approaches and ITMOs.

This information include non-confidential information extracted from the information submitted by participating Parties, and including links to the publicly available information submitted by participating Parties in their initial reports and in their BTR. This information, extracted by the secretariat from the Article 6 database, from initial reports and from BTR, should allow that, at minimum, the following disaggregated information can easily be found: participation

requirements, ITMO metrics, quantification of NDC, description of approaches, references levels or baselines, obligations on human rights, sustainable development objectives, as well as consistency checks and the report of the Article 6 TER team that has reviewed this information (as per paragraph 28 of the Annex of the guidance).

When considering confidentiality, guidance will need to be delivered to assist the secretariat in the presentation of information, and the preparation of annual reports, which should at least deliver party level information on levels of holdings, transfers, acquisitions, retirements and cancelation for different purposes, disaggregated, by authorisation status and purpose, generation vintage, party, activity, sector and cooperative approach.

7. IT security

To keep the general faith in the Paris agreement it is important to prevent fraudulent use of the registries, the Article 6 database and the CARP. Therefore, the technical infrastructure should be built using the highest level of IT-security and in a manner so that fraud is prevented, including preventing unauthorised access.